

Lululemon Written Case Analysis

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Table of Contents

TABLE OF CONTENTS	2
EXECUTIVE SUMMARY	3
STRATEGIC ISSUE 1 – PRODUCT DIVERSIFICATION	3
STRATEGIC ISSUE 2 – LIMITED RANGE OF SIZING AVAILABLE	3
STRATEGIC ISSUE 3 – HIGH TURNOVER OF SENIOR EXECUTIVES	4
RECOMMENDATION	4
EXTERNAL ANALYSIS	6
APPENDIX A - PESTEL ANALYSIS	6
APPENDIX B – DOMINANT ECONOMIC CHARACTERISTICS	7
APPENDIX C – FIVE FORCES	8
APPENDIX D – DRIVERS OF CHANGE	9
APPENDIX E – COMPETITOR ANALYSIS	9
INTERNAL ANALYSIS	12
APPENDIX A – WEIGHTED COMPETITOR ANALYSIS	12
APPENDIX B – SWOT ANALYSIS	13
APPENDIX C – FINANCIAL ANALYSIS	15
APPENDIX D – CURRENT STRATEGY	18

Executive Summary

Lululemon was founded in 1998, by Chip Wilson and opened their first retail store in November of 2000 in Vancouver, Canada. Chip Wilson and wife Shannon started the brand when he opened a design studio for yoga clothing, that he also used a yoga to help pay his rent. From there lululemon was born, and attracted those who were committed to living a healthy lifestyle. As the brand grew in popularity, it attracted mostly female customer base. The athletic or athleisure wear company has described its vision and purpose as “a designer, distributor and retailer of healthy lifestyle inspired athletic apparel and accessories.” The brand operates in the sports and fitness apparel industry, which was globally valued at \$250 billion in 2020, and has been forecasted to have an annual growth of 5% through 2026 (*See External Analysis: Appendix B pg. 7*). The industry has become increasingly popular over the years, due to an increased awareness of healthy living and changed in consumer lifestyle changes (*See External Analysis: Appendix D pg. 9*). As of 2022, lululemon athletica has committed to continue offering a “diverse and growing selection of premium-price performance apparel” designed for men, women and children who participate in a healthy lifestyle activity, like Pilates, yoga, running, cycling and more. (*See Internal Analysis: Appendix D pg. 18*).

In this case we look at the different strategies that lululemon has and will be implementing for the future. The company has maintained strong brand loyalty through effective marketing and a heavy focus on customer experience, with their e-commerce platform playing a significant role in their success. In recent years lululemon has seen a consistent growth in revenue and net sales (*See Internal Analysis: Appendix C pg. 15*), all while being able to globally expand and reach new communities of potential consumers. Although the company’s weaknesses have occasionally been exposed, their overall strategy has proven to be successful, and the company is well-positioned for continued growth and success in the sports and fitness apparel industry.

Below I have pointed out lululemon’s current strategic issues and provided a recommendation on how one of these issues can be solved, to help improve the overall brand continue to grow and perform at a high level.

Strategic Issue 1 – Product Diversification

Lululemon is currently experiencing an increasing level of competition in the sports and fitness apparel industry. This is primarily coming from the rise in online shopping, which has caused many to switch to their method of shopping (*See External Analysis: Appendix D pg. 9*). With an increase in e-commerce transactions, lululemon is under pressure to continue to innovate and introduce new products for their customers. As of right now, Lululemon primarily focuses on women’s clothing in their women’s line made up for over 67% of their net revenue in 2021. In the past, focusing on majority of their customer base has been successful for the brand. However, compared to its competitors. Lululemon fails to offer an equal number of products for men, women, and children (*See External Analysis: Appendix E pg. 9*). This is not only within athletic apparel, but in other athletic industries as well like shoes.

Strategic Issue 2 – Limited Range of Sizing Available

In March 2013, Lululemon announced on their Facebook that their size range would not include sizes for those above a size 12. The company claimed that focusing on sizes, ranging from 2 to 12, was a crucial part of their business strategy and that they "...want to be excellent at what they do so this means they can't be everything to everybody and need to focus on specific areas." In the competitor analysis, conducted, we see that one of Lululemon's main competitors did offer sizes that were outside of the size range explained above (*See External Analysis: Appendix E pg. 9*). By limiting their size range, the brand was excluding an entire demographic of people and with the competition from substitutes producers and competition from rival sellers both being strong forces, Lululemon put themselves in a box (*See External Analysis: Appendix C pg. 8*).

In 2016, the largest size on the website was a size 12 for women. In 2022, the size range expanded and shows on the company's website that the smallest size is now a 0 and the largest size is now a 20 (Women's). This change, is productive and shows that the brand has grown over the year, but is Lululemon 9 years too late?

Strategic Issue 3 – High Turnover of Senior Executives

As described in the first strategic issue, Lululemon has an issue in product diversification and innovation, due to the increasing level of competition in the sport and fitness apparel industry. In the company's 24 years of operations, they have faced a significant number of internal issues amongst the senior executives. The high turnover rate, could be a contributing factor as to why Lululemon has not grown in the market, as much as its competitors have. The five CEOs (Chief Executive Officers), Lululemon has had are, Chip Wilson (1998-2005), Robert Meers (2005-2008), Christine M. Day (2008-2013), Laurent Potdevin (2013-2018) and Calvin McDonald (2019-Present). Though all these people positively contributed to the growth of Lululemon, the continuous resignations, media scandals and high turnover rate of other senior executives, has negatively affected Lululemon's image with the different stakeholders in the company. As seen in the SWOT Analysis conducted (*See Internal Analysis: Appendix B pg. 13*), one of Lululemon's strengths is their brand reputation, image, and awareness. If the internal issues continue to occur, they will tarnish the brand and give it a bad name, and this will cause a loss in market share, revenue, and profit.

Recommendation

For Lululemon to continue to grow and gain more market share, they must be willing to expand globally and produce new products in their current market and in different markets that are exciting to current customers and potential customers. Through product diversification Lululemon can open themselves up to an entirely new demographic. For example, Molly has been a loyal customer at Lululemon for eight years now, but Nike is releasing a global apparel collection, that features the flag of the country you get it from. Molly wants to stay loyal to Lululemon but is a collector and might make the switch to Nike. In this scenario, Lululemon could partner with the Australian Olympic Team, like what the brand did with the Canadian Olympic Team in 2020 and create gear that is exclusive to the country of Australia. This collection would not only directly compete with Nike, but it would help retain customers like Molly who are thinking about switching to a different brand. For Lululemon, I recommend they engage in more celebrity deals and endorsements with people from different countries. This

would not only help them expand globally, but it gives the opportunity to create new and unique products, but it would also help them diversify their demographic.

External Analysis

Appendix A - PESTEL Analysis

Category	Impact	Explanation
Political	Weak	<ul style="list-style-type: none"> • Tariffs • Taxation Policies <p>When importing and exporting large amounts of products tariffs and taxations can impact the supply chain and manufacturing time. Due to economies of scale this may not affect a larger firm in the industry, but it could impact newer and more vulnerable firms. This can negatively affect the industry, but it is not a strong force.</p>
Economic	Strong	<ul style="list-style-type: none"> • Change in Consumer Spending • Costs of Raw Materials <p>Economic conditions, such as recessions or inflation, can impact consumer spending, products used for leisure can be seen as a “luxury good” due to its premium pricing. With this industry being a global market, fluctuations of currency exchange rates, could affect the cost of raw materials being imported or exported. This could have a negative impact on the industry, and it would impact both firms and consumers</p>
Social	Strong	<ul style="list-style-type: none"> • Increased Participation of Physical Activities (yoga, running, cycling, Pilates, etc.) <p>With an increased public interest and demand for healthy living, the sports and fitness apparel industry has grown substantially. This trend has caused consumers to seek out this product This has had a positive effect on the industry because people who were not consumers previously, are becoming consumers (trend following)</p>
Technological	Moderate	<ul style="list-style-type: none"> • Demand for Innovative Products <p>Consumers consistently want the newest products with the best technology. In this industry it is important to always be innovating and designing so customers are interested in what you have. Technological advancements are positive for consumers but can negatively affect firms in the industry who continuously upgrade and update.</p>
Environmental	Moderate	<ul style="list-style-type: none"> • Increased Demand for Ethically Sustained Products • Increased Demand for Eco-Friendly Materials <p>Due to increasing environmental concerns, firms in this industry are held to high standard. Consumers want to know where their products are coming from and are trusting the firm to be transparent in its production. This negatively affects</p>

		the industry and firms within it, if they are found lying to their consumers.
Legal/Regulatory	Weak	<ul style="list-style-type: none"> • Labor laws and regulations (outside of the U.S) <p>Working condition regulations and labor laws can cause supply chain issues and manufacturing if a brand is believed to be breaking them. Even though this is weak, violating a labor law, and or regulation, can negatively impact the industry.</p>

Appendix B – Dominant Economic Characteristics

A. **Industry:** Sports and Fitness Apparel

B. **Market Size & Growth Rate:** In 2020, the global market for all types of sportswear, activewear and athletic apparel had a value of \$250 billion, with an expected annual growth rate of 5% through 2026. Within the segment of apparel for types of sports the global market reached \$3 billion and was the fastest growing segment in the industry.

C. **Scope of Competitive Rivalry:** Competition in the Sports and Fitness Apparel Industry is intense, as there are many competitors that offer a range of different products in the different segments within the industry. With both small and large firms competing for market share in the industry, competition has become unattractive, and dependent on your presence digitally.

D. **Product Innovation:** In the Sports and Fitness Apparel Industry it is extremely important to continue innovating with fabrics and materials. This is products can be not on comfortable, but wearable and fashionable for consumers.

E. **Economies of Scale:** In this industry, economies of scale have a significant amount of impact. As larger companies like Nike and Adidas continue to grow and produce more products, they can spread their fixed costs which allows them to have a smaller average cost per unit. Due to this, these companies have an advantage as they can offer industry competitive prices and discounts on the merchandise of their choosing. Economies of scale in the sports and fitness apparel industry, also have an effect on marketing and advertising, as more large companies who are more financially stable can spend more on social media, endorsements, and storefronts. A smaller company or new entrant into this industry, is already at a disadvantage, because the bigger name brands already have large portions of the market. These firms are also at a disadvantage financially, due to economies of scale.

F. **Learning / Experience Curve Effects:**

The sports and fitness apparel industry benefits greatly from learning and experience curve effects. As companies grow, they learn to expand and produce more efficiently, so they can reduce operating costs and increase profitability. The industry is always evolving as it heavily relies on popular trends. With this companies need to develop the ability to evolve, and change with the consumers, but they also need to be able to learn from their consumers and the feedback that is provided so they continuously improve and learn.

Appendix C – Five Forces

- **Threat of New Entrants – Moderate**

The threat of new entrants in the sports and fitness apparel industry is a moderate threat. With a growing demand for sports and fitness products, the industry is attractive for new entrants. These new entrants bring new technology and innovation (fabrics, raw materials, performance quality, etc.), which will overall increase competitive pressure for firms already in the market. However, there are new high entry barriers due to the gross amount of funds needed for R&D, production capabilities and marketing to gain market share.

- **Competition from Substitutes – Strong**

The sports and fitness apparel industry faces a threat from a range of substitutes offered in other industries and markets. These substitutes include but are not limited to outdoor gear which is both durable and versatile and casual clothing which a consumer would already own for everyday wear. To keep consumers intrigued, firms in the industry must continually innovate and differentiate their products to be competitive. The threat of substitutes is strong, as athletic wear may not always be a priority for consumers.

- **Buyer Power – Strong**

Buyers have a significant amount of power in the sports and fitness apparel industry, due consumers being highly price sensitive and having a low switching cost. With there being a multitude of firms in the industry, offering a wide range of products, there is pressure on suppliers to consistently make high-quality products that are offered at competitive prices. If a company fails to meet the demands of its consumers, they are at risk to lose market share and profits.

- **Supplier Power – Moderate to Strong**

In this industry the supplier bargaining power is moderate to strong. With there being a complex network of suppliers for textiles, raw materials, and fabric some suppliers have an advantage over others and can negotiate prices based on quality and reliability. However, on the other side large firms like Nike, adidas and Under Armour have a significant amount of bargaining power because of their size and scale at which they produce their products. This allows them to negotiate favorable terms with different suppliers.

- **Rivalry – Strong**

The rivalries in sports and fitness apparel industry are highly competitive. With well-known brands like Nike, adidas and Under Armour who offer to a broad range of products not only in this industry, but in other athletic industries as well. Companies in this industry compete off price, marketing, brand image and product differentiation. The firms already in the industry are spread out (niche to broad), and the current pressures are supportive of high industry profitability.

Appendix D – Drivers of Change

1. Driver of Change 1 – Consumer Lifestyle & Preferences

Consumer lifestyle and preferences is a driver of change in the sports and fitness apparel industry, because living healthy and working has been a growing trend around the world. This health-conscious lifestyle has led to the increase in demand for sports and fitness apparel.

Consumers want apparel that is fashionable, versatile, and comfortable, but functional enough to be used both in the gym and outside of the gym. While this driver of change makes the industry more attractive, it also increases competition in the industry. For current firms to prepare for the impact of change, they must continue to innovate and invest in R&D projects so their products can continue to be innovative and fresh in the market. Companies also need to evolve as the trends do, so new customers are attracted to them, and so current customer stay loyal.

2. Driver of Change 2 – E-Commerce & Digital Marketing

In a world of social media and online shopping, the internet is changing the way consumers shop for their products. For the sports and fitness apparel industry, an e-commerce and digital marketing presence has been crucial, as the increase in use has changed the ways consumers shop and absorb information. With a strong online presence, companies can show customers their products on real people in real time a, through reels, TikTok and YouTube try-on hauls and virtual try-ons. This driver has increased the demand for the products within the industry, but it has also given a challenge to firms whose primary sales came from in person transactions. This driver is also making the market more intense, as there is a larger pool of online retailers. To prepare and overcome this change, companies need to prioritize promoting through social media channels and promote positive e-commerce experience through their respective websites.

3. Driver of Change 3 – Technology

As technology continues to advance and be a driver of change in other industries, technology has also been driver of change in the sports and fitness apparel industry. With the current technological advancements, there has been developments of new features, designs and improved fabrics which has led to innovation in manufacturing. The changes in how apparel is made and what materials and fabrics are being used to create them, has pushed brands to differentiate themselves by offering the newest and most advanced products. This driver of change has not only increased competition, but it has also increased demand in the industry. To prepare the impact of technology, companies need to invest in research and development, so they continue to enhance their products and their customers' experience.

Appendix E – Competitor Analysis

Competitor Identification & Strategy

Competitor 1 – Nike

- Nike is the world's largest sports brand, due to its global sales totaling up of \$44.5 billion in 2021, with North America covering &17.2 billion (61% of worldwide revenue). In being the most powerful and well-known brand, in the sports apparel and fitness industry Nike has been able to capture a large portion of the market share. For women alone,

Nike's sales totaled up to \$12.8 billion in 2021. With 204 stores in the United States and 618 worldwide, Nike has successfully and efficiently been able to distribute their products through multiple retailers (specialty athletic stores, sporting goods stores, department stores, etc.), as well as through their own Nike and NIKETOWN retail stores. This doesn't include the strong online presence that Nike also has with their online stores and apps.

- Generic Strategy – Broad Differentiation Strategy
- Individual Strategies –
 - Well Established in Other Markets
 - Continuous Global Expansion

Competitor 2 – Adidas

- Adidas is a global company, whose headquarters is located in Germany with worldwide sales of \$23 billion in 2021. The company had a global revenue of \$9.5 billion in sports apparel revenues. Their products are high-quality, and they offer a wide variety of sports and fitness apparel (professional to amateur), for both male and women. The Adidas Group has a large reach, as their products are sold almost everywhere in the world. In 2021 the company was able to sustain sales through the 2,200 Adidas and Reebok stores, all while successfully selling through third party retailers and continuing to sell through their website adidas.com. However, in the first quarter of 2022 Adidas sold the Reebok brand to Authentic Brands Group.
- Generic Strategy – Focused Differentiation Strategy
- Individual Strategies
 - Established in Other Markets
 - Focus on Brand Awareness and Reputation Globally

Competitor 3 – Under Armour

- In 2021, Under Armour had a total sales revenue of \$5.7 billion, with \$3.8 billion of their sales being from their apparel line. Like its competitor lululemon, Under Armour strives to create products that are made with high quality and performance fabrics that are both comfortable and functional. Their lines include apparel for men, women and children, and the company's sales and net income fluctuated from 2019 to 2021, with \$549 million losses in 2020. The loss was due to the shutdowns during the COVID-19 pandemic, as majority of the Under Armour sales were made through in person wholesale channels and retailers.
- Generic Strategy – Focused Low-Cost Strategy
- Individual Strategies –
 - Efficient Distribution Among Retailers
 - Continuous Product Innovation
 - Technological Advancements within Product Lines

Competitor 4 – Athleta

- Athleta is a newer brand in the sport and apparel industry, that specially specializes in apparel for women. Athleta was purchased by The Gap in 2008 and has since then

emerged as a direct competitor to lululemon. Athleta has a wide range of products, that includes sizes ranging from XXS to 3X. This puts Athleta in better competitive position with their direct rival lululemon, as they are providing a wide range of sizes, that are typically not offered (for women). During the 2021 fiscal year, Athleta had net sales that totaled up to \$1.45 billion, and this was a 27.5% increase from the \$1.14 billion that was made in the 2020 fiscal year.

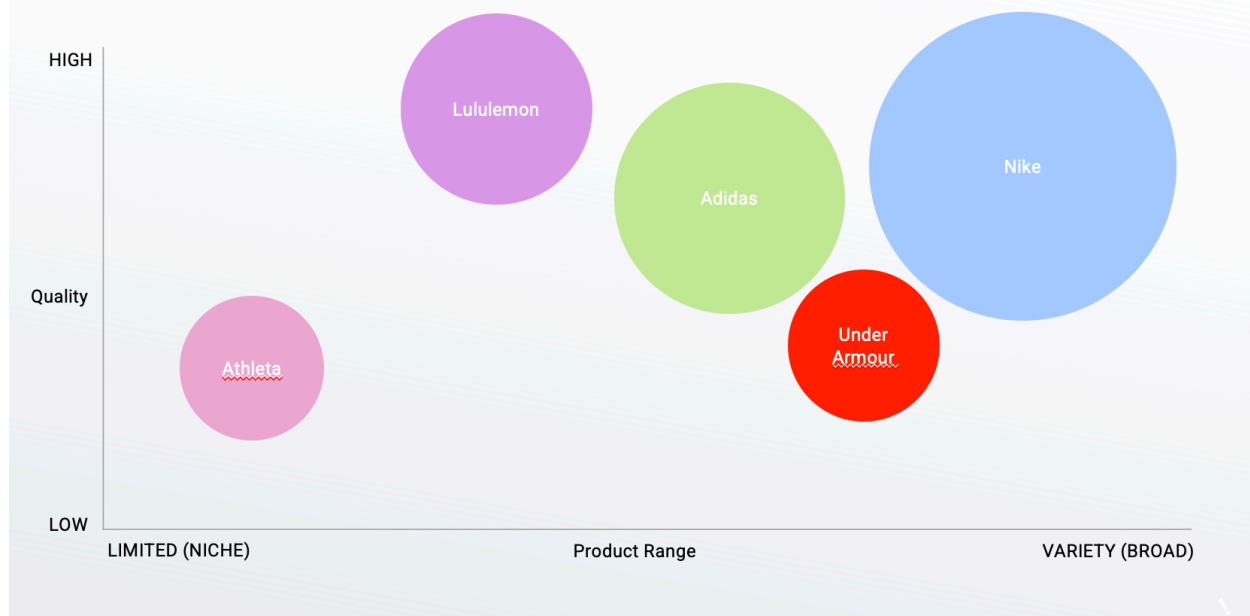
- Generic Strategy – Focused Differentiation Strategy
- Individual Strategies –
 - Wide Range of Styles & Sizing for All Demographics
 - Caters to Price Sensitive Consumers

Key Success Factors

- Key Success Factor 1 – **Quality/Product Performance**
 - This is the most important key success factor in the sports and fitness apparel industry. Quality and product performance in this industry is essential for success because consumers are expecting high performing and comfortable athletic wear, that meets their personal needs and expectations.
- Key Success Factor 2 – **New Product Innovation Capability**
 - Companies need to be able to produce and innovate new products that meet evolving customer need and preferences. Innovation allows a firms to differentiate itself from competitors, and keep customers intrigued with the brand.
- Key Success Factor 3 – **Marketing & Advertising**
 - Effective marketing and advertising strategies are essential for companies to reach their target audience. To sell products, firms in the sports and fitness apparel industry need to seek out and “claim” a demographic to actively pursue. This demographic could be broad or niche, but marketing is crucial for success so brands can build brand awareness and increase customer demand.
- Key Success Factor 4 – **Distribution Channels**
 - To continuously grow in this industry, consumers need to be able to access a brands product through a various distribution channels. This includes online and physical stores, as well as specialty retailers. It is crucial that companies have a strong network they distribute their products to, so customers can easily access the merchandise.
- Key Success Factor 5 – **Deals & Endorsements**
 - Deals and endorsements with athletes, celebrities, and other influencers can help to create a positive image for the company and its products, as well as increase sales. By securing these deals, companies can open themselves up to increased revenue and new customers.

Strategic Group Map

Strategic Group Map: Sports & Fitness Apparel Industry



Strategic Group Map Takeaway

The strategic group map shows that lululemon is in a positive position within their industry, but they do not have a large share of the market. Due to lululemon entering the industry a smaller niche focused brand, they have struggles branching out and appealing to a broader range of consumers. With Nike and adidas both in the market, it is difficult for other brands to gain the market share they have, because they are so well established in other industries. If lululemon were to expand there product line they would be a stronger and more fearsome competitor in the industry. However, lululemon is currently positioned well in their respective industry, and have room grow and gain more market share.

Internal Analysis

Appendix A – Weighted Competitor Analysis

		Lululemon		Nike		Adidas	
KSF	Importance Weight	Strength Rating	Score	Strength Rating	Score	Strength Rating	Score
Quality/Product Performance	0.25	8	2.00	10	2.50	8	2.00
New Product Innovation Capability	0.25	8	2.00	8	2.00	5	1.25
Marketing & Advertising	0.25	5	1.25	9	2.25	9	2.25

Distribution Channels	0.15	3	0.45	9	1.35	9	1.35
Deals & Endorsements	0.10	3	0.45	10	1.00	10	1.00
Sum	1.00						
Overall			6.15		9.1		7.85

		Under Armor		Athleta	
KSF	Importance Weight	Strength Rating	Score	Strength Rating	Score
Quality/Product Performance	0.25	6	1.50	4	1.00
New Product Innovation Capability	0.25	8	2.00	5	1.25
Marketing & Advertising	0.25	5	1.25	4	1.00
Distribution Channels	0.15	4	0.60	2	0.30
Deals & Endorsements	0.10	3	0.30	1	0.10
Sum	1.00				
Overall			5.65		3.65

Weighted Competitor Analysis Takeaway

The overall strength ratings for lululemon show that against its competitors, lululemon falls in the middle of the pack. The company has the largest competitive advantage in the quality and product performance, but they are also a very strong competitor when it come to their capability to produce new innovative products. Unfortunately, lululemon is at a disadvantage when it comes to their distribution channels and their deals and endorsements. The larger more aggressive competitors, that are Nike and adidas, have found great success in these areas. You can find both brand in almost any department stores, specialty sports store, website, and in their own brand stores. Both also have a strong partnership with professional athletes, college athletic teams, etc. However, with retail expansion and product expansion, lululemon has planet of room to grow, and take some of the market share from their competitors.

Appendix B – SWOT Analysis

Strengths:

- Brand Image & Reputation
 - Lululemon has created a strong image and reputation for itself, as they have consistently provided customers with products that are high-quality, innovative and fashionable.
- E-Commerce Presence

- Lululemon has a well designed website, that is easy to use and navigate. The website is also specialized to the country the consumer is in. They offer different color ways and products based on where you are, and this has allowed lululemon to give their online customers a personalized experience.
- Customer Loyalty & Retention
 - By continuing to release limited edition items and provide customers with incentives for purchases (yoga classes, like new trade-in, discount for military & yoga instructors, etc.), lululemon has been able to build a customer base that is loyal to the brand. This helps them maintain a steady stream of revenue throughout the calendar year.

Weaknesses:

- Pricing
 - With their products priced at a premium rate, lululemon deters customers who are more price sensitive, and pushes them towards their competitors who have a wider range of prices available.
- Limited Geographical Reach
 - Even though lululemon has a global presence, it is small compared to its competitors in the industry. Without continued expansion lululemon is limiting their global reach and is at risk of losing market share.

Opportunities:

- Increased Expansion into Men's Clothing
 - While lululemon has primarily focuses on their women's clothing line, they have an opportunity to bring in a new customer base if they continue to expand their men's line. This will increase revenue, and potentially poach customers from their competitors.
- Innovation of New Products
 - Lululemon can increase their market share a differentiate themselves by developing new products. This includes expansion outside of the apparel specific industry they are in now. With this new innovation lululemon could even, extend off of their current apparel line and produce clothing for kids, pets, or even for the workplace.

Threats:

- Changes in Consumer Lifestyles
 - The increase in demand for sports and fitness apparel was due to the change consumer made in their lifestyle. Exercising and fitness training became trendy again. If consumers were to shift away from this lifestyle, lululemon could be facing some serious trouble. The company needs to be continuously researching trends and changes, so they are prepared to adjust their product offering.
- Economic Downturn

- Economic downturns can impact consumer spending, which could negatively impact Lululemon's revenue. The company needs to be prepared to weather economic downturns and adjust its pricing and marketing strategies accordingly.

SWOT Takeaway:

Based on the SWOT analysis, lululemon's strengths, position them well in the industry. Their strengths suggest that the company has an established image for themselves and their digital presence both in their website and through social media, has allowed them to continue to grow. However, lululemon's weaknesses expose how the company is cutting themselves off from a new set of demographics both financially. With their premium priced products, lululemon is shutting themselves off from potential customers who are more price sensitive. They can improve this by potentially offering a line that is less expensive or opening more outlets for those customers to shop. While lululemon has expanded some, they do not have as much of a global reach compared to their competitors, which in turn could lead to a loss in market share of profitability.

The opportunities for lululemon to grow include expansion and innovation. With lululemon primarily focusing on women, their men's section has suffered. However, with increased expansion into men's clothing lululemon can attract a new customer base, of not only men but families and couples that include already loyal customers. Through continuous innovation lululemon can get ahead of their competitions. By continuing to fund research and development, lululemon could explore new ways to enhance their products, and give their customers the best of the best.

Lululemon does however need to watch out for the potential threat of changed in their consumers lifestyle. Due to lululemon primarily offering athleisure, they could potentially be in trouble if consumers decide that is no longer the style they are attracted to. As a company they needs continue to evolve with their customers. Another threat they face is the potential of an economic downturn, which would affect their consumer spending and profits. While their consumers currently love the high-quality products they produce, the price of quality might not be "worth it" to consumers if the economy were to take a negative turn.

Appendix C – Financial Analysis

Profitability

Gross Profit Margin: Calculated as sales revenue minus COGS divided by sales revenue.

2021	2020	2019
$(\$6,256.60 - \$2,648.0 / \$6,256.60) * 100$	$(\$4,401.90 - \$1,937.90 / \$4,401.90) * 100$	$(\$3,979.30 - \$1,755.9 / \$3,979.3) * 100$
57.68%	55.98%	55.60%

Operating Profit Margin: Calculated as operating income divided by revenue.

2021	2020	2019
$(\$1,333.4 / \$6,256.60) * 100$	$(\$830.0 / \$4,401.90) * 100$	$(\$889.1 / \$3,979.3) * 100$
21.31%	18.86%	22.34%

The profitability ratios above indicate that lululemon is gradually improving and showing the ability it must increase revenue and sales each year. The company's gross profit margin increased by 2.08% from 2019 to 2021. This indicates that the company is generating profits from its sales. The operating profit margin also saw a 2.45% increase from 2020 to 2021, which showed operational improvement and recovery from the COVID-19 pandemic. While it did not reach the high it saw of 22.34% in 2019, lululemon has shown its ability to operate efficiently and effectively as a company.

Liquidity

Current Ratio: Calculated as current assets divided by current liabilities.

2021	2020	2019
N/A	N/A	N/A
N/A	N/A	N/A

Working Capital: Calculated as current assets minus current liabilities.

2021	2020	2019
N/A	N/A	N/A
N/A	N/A	N/A

There is not enough information to perform an analysis and calculate liquidity ratios for lululemon.

Leverage

Total Debt-to-Assets Ratio: Calculated as total debt divided by total assets. Find total debt by subtracting shareholders equity from total assets.

2021	2020	2019
$(\$2,202.50 / \$4,942.50)$	$(\$1,626 / \$4,185.20)$	$(\$1,329 / \$3,281.40)$
.45	.39	.41

Total Debt-to-Equity Ratio: Calculated as total debt divided by total equity. Find total debt by subtracting shareholders equity from total assets.

2021	2020	2019
$(\$2,202.50 / \$2,740)$	$(\$1,626.60 / \$2,558.60)$	$(\$1,329 / \$1,952.20)$
.80	.64	.68

The leverage ratios above, show that the company has become more reliant on debt to finance operations. The total debt-to-assets ratio for the company saw an increase of 0.04 from 2019 to 2021, with a slight decrease in 2020. This could mean that the company has a larger amount of their assets that are being funded by their debt. This however is no cause for concern, as the increase could be a result of an increase in operations and growth. The total debt-to-equity ratio also increased from 2019 to 2021, with a small decrease in 2020. This could be a side effect of the COVID-19 pandemic, as the world was shut down. Retailers took a large hit, due to in person shopping ceasing to exist. While the increase is not good for the company, now the company is in any financial risk.

Activity

Days of Inventory: Calculated as inventory divided by COGS divided by 365.

2021	2020	2019
$(\$966.5)/\$2,648.0 \div 365$	$(\$647.3)/\$1,937.9 \div 365$	$(\$518.5)/\$1,755.9 \div 365$
133.22	121.92	107.78

Inventory Turnover: Calculated as COGS divided by inventory.

2021	2020	2019
$\$2,648.0/\966.5	$\$1,937.9/\647.3	$\$1,755.9/\518.5
2.74	2.99	3.39

The activity ratios above indicate the lululemon is experiencing inefficiencies, and or lower demand for its product. The days of inventory ratio showed a 25 day increase from 2019 to 2021 for how long they were holding inventory. The company is taking longer to sell their inventory, and a continuous increase in this ratio could lead to a high excess of inventory left at the end of each year. The inventory turnover ratio decreased from 2019 to 2021, which mean the company is selling at a slower rate. The decrease in this number in 2020 have been cause by the COVID-19 pandemic, has consumers were significantly more price sensitive, and didn't find worth in buy anything other than necessities. Due to the number continuing to decrease in 2021, we can assume that lululemon had been experiencing lower and slower sales than it had experience previously.

Overall Takeaway

Based on the financial ratios provided for profitability, leverage, and activity, we can see that lululemon is performing well. Through the years provided, it is shown that lululemon has been able generate more revenue, operate efficiently, and generate more overall profit from its operations. Without the information needed to solve for liquidity, it is unsure if lululemon.... However, the company does seem to be taking on more debt to finance its operations as both the debt-to-assets and debt-to-equity ratios have increased. This is not a huge concern though, because the ratios are still at an appropriate and with revenue increasing lululemon is financially stable enough to pay off their debt. For its activity ratios lululemon has seen an increase in the

inventory ratio, which could mean they are selling at a slower rate than they had previously. The inventory turnover ratio has decreased, which is a red flag, as it tells us that lululemon is being left with extra inventory. It is not a huge concern, but if this trend continues, the issue needs to be further analyzed and investigated.

Appendix D – Current Strategy

Generic Strategy: Focused Differentiation Strategy

Lululemon has a focused differentiation strategy that is based on designing high quality, high performance athletic apparel and accessories. They target consumers who are health conscious, and willing to pay a premium price for their products. This makes their primary target audience females as they made up for 67% of their net revenue in 2021. When lululemon athletica entered the sports and fitness apparel industry, they started were focused on a niche community primarily made up of individuals involved with yoga and healthy holistic living. As they grew over the years, they were able to widen their customer base all while maintaining premium pricing and exclusivity. Through this and their strong online presence, lululemon has created a positive brand image and reputation that is known in most parts of the world.

Individual Strategies

1. Strategy 1: Expanding Global Coverage

This strategy involves Lululemon expanding its operations, outside of North America. While lululemon has already begun to expand in different geographical regions around the world, the brand wants to focus on opening new stores in the People's Republic of China and Europe (Germany, the United Kingdom, France, Ireland, the Netherlands and Norway). With the plan to open one to two stores annually, in these European countries, lululemon then wants to focus on Asia-Pacific countries. This will help them be more competitive globally and will help increase yearly revenues. This supports the generic strategy of focused differentiation by giving the company the opportunity to tap into new markets and offer its unique, high-quality products to a wider customer base.

2. Strategy 2: Enhancing Omni Guest Experiences

This strategy involves improving the customer experience across all touchpoints, including online, in-store, and mobile. With the goal on becoming an “experiential brand” lululemon wants it to deepen the relationships it has with its customers, so they can provide them with a personalized experience both in store and online. The company also wants to focus on creating a digital ecosystem that thrives on communication and provides customers with a greater source of information about the brand. This contributes to lululemon generic strategy, as it supports a differentiated customer experience so the brand can increase customer retention and promote brand loyalty.

3. Strategy 3: Continuous Innovation of Merchandise & Apparel

This strategy involves consistently introducing new and innovative products to the market. With their Science of Feel approach to product development lululemon is committed to using high performance fabrics and precise construction techniques. This

supports their generic strategy because this “technology” will disrupt the industry and separate lululemon from its competitors. By continually inventing and rethinking, lululemon is staying ahead of the trends, and because of this they are able to lure new customers into their store with never-before-seen designs.

4. Strategy 4: Increasing Revenue in the Men’s and Women’s Department

This strategy involves focusing on increasing sales and revenue specifically in the men's and women's departments. While the women’s department makes up for majority of the company’s net revenue, lululemon has set to expand the men’s line. By catering and appealing to both genders, lululemon is can double their current revenue and attract new customers. This supports their generic strategy because they are extending their product knowledge and niche to those who aren’t currently in their target audience.

5. Strategy 5: Maintaining Simplicity and Exclusivity of Direct-to-Consumer Sales

This strategy focuses on maintaining the simplicity of lululemon’s direct to consumer sales. By selling through its own distribution channels such as e-commerce and retail stores, lululemon management saw that online sale specifically added convenience for customers, secured sales in geographic locations where there were no physical retail stores and helped build brand awareness in new markets outside of North America. This supports the focused differentiation strategy by customers and experience when they work directly with the brand. By maintaining this control over its sales channels, lululemon can offer a premium and exclusive products that sets it apart from competitors.